PENSIONS – THE LAST CHANCE SALOON?

PENSIONS ARE ABOUT TO CHANGE AGAIN – AND THIS TIME NOT FOR THE BETTER!

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YOUR PERSONAL CFO

NAVIGATOR FINANCIAL PLANNING

TAX RELIEF REDUCTIONS

There are a couple of changes that are definitely going to happen on 6th April 2016, plus a strong possibility that the upcoming Budget on Wednesday 16th March will introduce further restrictions.

This affects all of us, but you need to pay particular attention if you fall into one of the following categories:

- You have a substantial pension fund (say £500,000 plus);
- Your income is more than £150,000 per annum.

When we originally wrote this document, it was widely expected that the Chancellor would make changes to pension tax relief in the Budget on 16th March. It now appears that this will not be the case, following media reports.

Here are the details of what is happening, how you might be affected, and what you can do about it.

1.) The Lifetime Allowance is falling from £1.25m to £1m

If The Lifetime Allowance (LTA) is the maximum amount you can accumulate across all pensions in your lifetime without suffering a tax charge. The £1m is tested at the point you draw your pension benefits. I am very concerned that many people are not taking note of this fact, believing they are miles away from achieving such a sum.

It is not the more obvious candidates (those with pension funds of say £800,000 plus) that I am worried about. Hopefully they are savvy enough to be taking advice. It is those in their 40s with pension funds now in the region of £500,000-£600,000 who do not realise they might be affected.

A pension cannot be accessed until a minimum of age 55. This coupled with the magic of compound interest means that a pension fund of say £600,000 invested could easily double in size over a 10-12 year period. If you have more than the prevailing LTA in a pension when you take benefits, you will suffer a tax charge of up to 55% on the excess. There is a way to prevent this tax charge but you may need to act quickly.

There are a couple of different ways to protect your entitlement to the current, higher LTA, but you may need to act before 5th April.

There are two formal government protections that can be applied for. For one of these protections, you will need to stop making contributions before 5th April. The other is of no real use to those with pensions below £1m.

It is not straightforward. A dilemma might arise where your employer is making contributions to your pension as well as you, or maybe even making all the contributions. In that case, there are calculations to be done to work out if the extra money coming in from the employer contributions, (plus the tax relief on any personal contributions), is worth more than you might lose in tax.

If you have more than £1 million in pension funds and are over 55, you might want to think about taking benefits from your pension before 5th April, to lock in the higher LTA. Again, calculations will need to done to weigh up the benefit of the Income Tax saved against the downside of bringing a substantial amount of money into the estate that will be subject to Inheritance Tax.

If your employer provides you with death benefits, these may also add to the funds to be tested against the LTA in the event of your death, depending on how the scheme is set up. Granted, you will not be around to worry about it, but your executors and heirs might be faced with a substantial Income Tax bill which they were not expecting.

In all of the cases above, proper planning and advice is needed to try and mitigate the worst effects of the changes.

2.) Do you earn over £150k a year? Prepare to have your annual pension contributions slashed

Those with income (both earned and unearned and including employer and net pay employee pension contributions) over £150,000 will have their Annual Allowance (that is, the total employee and employer pension contributions that can be made without suffering a tax charge) reduced on a sliding scale. For every £2 income over £150,000, £1 of annual allowance will be lost, subject to a minimum of £10,000 a year - a serious loss to your future pension funding opportunities.

If this applies to you, and you were planning to make significant contributions in future, now would be a good time to fund your pension as much as possible while you still can.

You can still go back up to three years in some circumstances, and mop up any unused contributions that could have been made.

Obviously, this will require a significant cash commitment; also, earnings will need to be in place to justify any personal contributions, but judicious use of company contributions, and possibly even a company scheme, may help.

Again, advice will be needed.

So what?

My concern for you, or for those you know, is that you have about two weeks to the Budget or five weeks to the tax year end to take advice and make decisions about your pensions; decisions that will impact your future wealth.

What should you do if you are concerned?

Please feel free to contact the Navigator advice team as soon as possible if you are unsure or have concerns that you may be impacted by these changes. We would be delighted to help.

We would also be happy to offer a free second opinion to any of your friends and colleagues who may be concerned about issues raised by this bulletin.

But please act now, time is running out.

CONTACT DETAILS FOR THE NAVIGATOR FINANCIAL PLANNING TEAM

T: **028 3085 1199**

E: **personalcfo@navigatorfp.com**

Or feel free to get in touch with your usual Navigator contact

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